



## MONETARY POLICY STATEMENT

### Keeping the policy rate unchanged and setting the refinancing amount

**No: 2021/04**

**Date: December 16, 2021**

The Monetary Policy Committee (MPC) of the Bank of Mongolia held scheduled meetings on December 15-16th, 2021. Taking into consideration current state of the economy and financial markets as well as outlook and risks to the domestic and foreign economic environments, the MPC decided to:

1. Keep the policy rate unchanged at 6 percent;
2. Provide up to MNT 250 billion under the Bank of Mongolia's long-term repo financing instrument in the first quarter of 2022;
3. Set repo financing rate at policy rate + 0.5 percent;
4. Increase the reserve requirement on liabilities in foreign currency by 3 percentage points to 18 percent.

Annual headline inflation reached 10.5 percent nationwide and 10.0 percent in Ulaanbaatar city as of November 2021. The rise in inflation is mainly attributable to the supply-driven price increases, induced by border constraints, the spread of infectious livestock diseases and rising transportation costs. The headline inflation is expected to rise in the near term as a result of these factors and expected to stabilize around the central bank's target level in the second half of 2022. However, supply chain disruptions, border constraints and hikes in food and fuel prices beyond expectations may lead to the risk of inflation not returning to lower levels at the rates expected. Therefore, the decision for expanding the targeted purpose of long-term repo financing instruments would help to increase the stockpile of fuel and main food products up to the required level.

While the global economy has been recovering and the prices of key export goods have remained high, domestic economic growth undermined expectations for the last two quarters. Though policy measures implemented by the government and central bank have been supporting economic activity and contributing to its recovery, growth outlook is revised down from the previous quarter due to household consumption remaining subdued, border constraints leading to disruptions in foreign trade and supply chain and further resulting in weaker activities in transport, manufacturing, and construction sectors. Keeping the policy rate at the current level would have a positive impact on supporting economic recovery and stabilizing growth.

In addition, the Monetary Policy Committee decided to increase the reserve requirement on liabilities in foreign currency by 3 percentage points with the purpose of maintaining relative yield of tolgog and reducing the dollarization of bank liabilities.

The central bank will adjust its monetary policy stance in a timely manner in line with the developments of economic recovery and inflation outlook.

Extracts of the meeting minutes will be released in two weeks on the Bank of Mongolia's website.

MONETARY POLICY COMMITTEE